

Illinois Insurance

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Illinois issues company bulletin on terrorism exclusions in commercial lines policies

Uncertainty in the property and casualty commercial lines markets following the tragic events of September 11, 2001, coupled with the lack of a federal backstop for future terrorist attacks, have prompted state insurance regulators to consider approval of certain coverage exclusions for acts of terrorism.

Illinois' position on terrorism exclusions generally mirrors that of the National Association of Insurance Commissioners and most other state insurance departments. We believe this course of action offers a reasonable short-term solution that balances concerns about the solvency of insurers with concerns about adequate protection for business consumers.

The **company bulletin** (CB #2001-11) **issued on December 31, 2001**, to the state's commercial insurance carriers outlines filing procedures and requirements for exclusions related to acts of terrorism. Illinois differs from the NAIC in that we will only accept terrorism exclusions for companies that provide **proof** (rather than certification) **of loss** of adequate terrorism **reinsurance** for the lines of coverage to which the exclusion applies. The bulletin became effective immediately upon release and will expire on March 1, 2002. To view the complete text of the bulletin, including the form filing requirements, please visit the Department's website at www.state.il.us/ins/cb/cb0111.htm.

Illinois is accepting certain limited exclusions for acts of terrorism and

will file those that are substantially similar to the following series of optional endorsements developed by the Insurance Services Office (ISO):

Commercial Property Interline Endorsement: IL 09 40 01 02

Commercial Property Interline Endorsement: IL 09 42 01 02

Commercial General Liability Endorsement: CG 21 69 01 02

Commercial General Liability Endorsement: CG 31 42 01 02

Commercial General Liability Endorsement: CG 31 43 01 02

Commercial Liability Umbrella Endorsement: CU 21 29 01 02

Businessowners Endorsement: BP 05 12 01 02

Businessowners Endorsement: BP 05 13 01 02

Farm Liability Endorsement: FL 10 30 01 02

Illinois' position on terrorism exclusions generally mirrors that of the NAIC

Policy exclusions filed by ISO and accepted for filing by Illinois have some significant limitations that provide coverage for acts of terrorism under certain circumstances. For policies providing **property insurance cov-**

erage the following **limitations** apply:

- Exclusion for acts of terrorism only apply if the acts of terrorism result in industry-wide insured losses that exceed \$25,000,000 in property damage for related incidents that occur within a 72 hour period;

- Exclusions for acts of terrorism are not subject to the above limitations above if:

- The act involves the use, release or escape of nuclear materials, or that directly or indirectly results in nuclear reaction or radiation or radioactive contamination;

- The act is carried out by means of the dispersal or application of pathogenic or poisonous biological or chemical materials; or

- Pathogenic or poisonous biological or chemical materials are released, and it appears that one purpose of the terrorism was to release such materials.

For policies providing **liability insurance coverage** the following **limitations** apply:

- Exclusion for acts of terrorism only apply if the acts of terrorism result in industry-wide insured losses that exceed \$25,000,000 in property damage for related incidents that occur within a 72 hour period; or

bulletin (cont'd on page 2)

bulletin (cont'd from page 1)

• Fifty or more persons sustain death or serious physical injury. For purposes of this provision serious physical injury means:

▪ Physical injury that involves a substantial risk of death;

▪ Protracted and obvious physical disfigurement; or

▪ Protracted loss of or impairment of the function of a bodily member or organ.

• Exclusions for acts of terrorism are not subject to limitations above if:

▪ The act involves the use, release or escape of nuclear materials, or that directly or indirectly results in nuclear reaction or radiation or radioactive contamination;

▪ The act is carried out by means of the dispersal or application of pathogenic or poisonous biological or chemical materials; or

▪ Pathogenic or poisonous biological or chemical materials are released, and it appears that one purpose of the terrorism was to release such materials.

Illinois will accept the following **definition of acts of terrorism** or other similar definitions, so long as the definition is accompanied by limitations equal to or more favorable to policyholders as those in the ISO forms described above:

Terrorism means activities against persons, organizations or property of any nature:

1. *That involve the following or preparation for the following:*

a. *Use or threat of force or violence; or*

b. *Commission or threat of a dangerous act; or*

c. *Commission or threat of an act that interferes with or disrupts an electronic, communication, information, or mechanical system; and*

2. *When one or both of the following applies:*

a. *The effect is to intimidate or coerce a government or the civilian population or any segment thereof, or to disrupt any segment of the economy; or*

b. *It appears that the intent is to intimidate or coerce a government, or to further political, ideological, religious, social or economic objectives or to express (or to express opposition to) a philosophy or ideology.*

Illinois will only accept terrorism exclusions for companies that provide proof of loss of adequate terrorism reinsurance for the lines of coverage to which the exclusion applies. Illinois will not accept any terrorism exclusions for workers compensation policies.

For questions on forms filing, please contact Keith Fanning, P&C Compliance Unit, (217) 782-1792; fax: (217) 782-5020; e-mail: keith_fanning@ins.state.il.us.

For questions about policy renewal, cancellation, or nonrenewal, please contact Gayle Neuman, Consumer Services Unit, (217) 782-6361; fax (217) 782-5020; e-mail: gayle_neuman@ins.state.il.us. ♦

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Staff announcements

The following staff members earned professional designations in the 4th quarter of 2001:

Mohammad Arif, P&C Financial Examination Section, Automated Examination Specialist (AES);

Debra Hopkins, L/A&H Financial Analysis Unit, Fellow, Life Management Institute (FLMI);

Jeanine Kosinski, Consumer Information Unit, Associate in Life and Health Claims (AHLIC), International Claim Association;

Max Weaver, L/A&H Market Conduct Examination Section, Associate, Customer Service (ACS). ♦

NAIC assignments announced

The Illinois Department has received the following assignments from the NAIC for 2002, picking up eight new memberships (designated by *) from 2001. Illinois has also been named Chair of the Consumer Protections Working Group and Vice-Chair of the Risk-Based Capital Task Force.

National Treatment & Coordination Working Group

Improvements to State-Based Systems Working Group

Consumer Protections Working Group, **Chair**

Functional Regulation Working Group, **Chair**

NARAB Working Group*

(EX) Executive Committee

(EX1) Internal Administration Subcommittee*

(EX1) Meetings Coordination Task Force*

(A) Life Insurance & Annuities Committee*

(B) Regulatory Framework Task Force*

(B) Senior Issues Task Force

(B) Health Insurance Task Force

(C) Workers' Compensation Task Force

(C) Surplus Lines Task Force
(C) Casualty Actuarial Task Force

(D) Market Regulation and Consumer Affairs Committee

(D) Market Regulation Task Force
(E) Financial Condition

Committee

(E) Accounting Practices and Procedures Task Force

(E) Blanks Task Force

(E) Examination Oversight Task Force

(E) Risk-Based Capital Task Force, **Vice-Chair**

(E) Valuation of Securities Task Force, **Chair**

(E) Insolvency Task Force, **Chair**
(F) Financial Regulation

Standards and Accreditation Committee

(G) Special Insurance Issues Committee

(G) Antifraud Task Force

(G) Information Systems Task Force

(G) Regulatory Re-Engineering Task Force

(G) Financial Services

Modernization Task Force

(G) Reinsurance Task Force

(H) International Insurance Relations Committee

(H) International Holocaust Commission Task Force, **Chair**

Life and Health Actuarial (Technical) Task Force

NAIC/State Legislative Liaison Committee*

NAIC/CMS Liaison Committee

NAIC/Industry Liaison

Committee*

NAIC/Consumer Liaison

Committee

Consumer Participation Board of Trustees* ♦

Unlicensed public adjusters

Through complaints and market conduct examinations, the Department of Insurance has become aware that many insurance companies are adjusting property claims with unlicensed public adjusters.

Section 512.52 (a) of the Illinois Insurance Code defines "adjusting insurance claims" as any act in which a person or firm "represents an insured with an insurer for compensation, and while representing that insured either negotiates values, damages, or depreciation, or applies the loss circumstances to insurance policy provisions." Similarly, Code Section 512.53 (a) requires persons "engaged in the business of adjusting insurance claims" to be licensed.

We have found, however, that restoration services, board-up firms, roofing contractors and general contractors who do not hold a public adjuster's license have been participating in the settlement process with insurance companies.

When settling property claims, insurance companies that deal with a person or firm meeting the statutory criteria for claims adjusting, should ask for their license and should immediately report unlicensed parties to the Department of Insurance. ♦

Electronic notification to industry being considered

In an effort to improve communication with Illinois domiciled insurance companies and create cost efficiency, the Department of Insurance plans to test the feasibility of distributing regulatory notices electronically. Such e-mail notifications would either include the regulatory bulletin as an attachment or provide a link to its location on the Department's website.

To facilitate an electronic distribution system and ensure continuity in the receipt of mailings from the Department, it would be necessary for companies to comply with the following guidelines:

- Establish a general e-mail address or generic mail box that is not

identified with a specific individual in the company; and

- Establish a procedure to assure that incoming e-mails are opened daily and forwarded to the appropriate staff.

The Department is planning to test such a system with the domestic property and casualty industry as the pilot group. To that end, our Property & Casualty Financial Analysis Section will be sending a questionnaire to those companies. Once the initial test results are evaluated, our goal is to establish a system that would enable all areas of the Department of Insurance to electronically distribute relevant information to domestic companies. ♦

2001 Medical Malpractice Claims Study published

The Illinois Department of Insurance has released its 2001 *Medical Malpractice Claims Study*. Section 155.19 of the Illinois Insurance Code (215ILCS5/155.19) requires insurance companies to report medical liability claims or suits occurring in Illinois to the Department of Insurance. It also requires the Department to periodically release statistical reports based on such data and information.

The 2001 *Medical Malpractice Claims Study* is based on reported medical malpractice claims closed in Illinois from January 1, 1980, through December 31, 1999, and is focused on claims against doctors/physicians. It consists of eleven sections accompanied by many tables and graphs. The first section compares data on a year-

to-year basis focusing on trends in the amount of indemnity paid, the amount of defense cost paid, and the numbers of claims. In other sections, data is analyzed in four groupings, each consisting of five years of data: 1980 through 1984, 1985 through 1989, 1990 through 1994, and 1995 through 1999. Those groupings are analyzed by: severity of injury; type of doctor's practice; age of injured person; and region.

A hardcopy of the study is available upon request to Yoko Chism via e-mail at yoko_chism@ins.state.il.us, or by phone at (217) 524-5420. This study is also posted on the Reports page of the Department's website at www.state.il.us/ins. ♦

Delta Casualty Company ordered into liquidation

The Cook County Circuit Court issued an Order of Liquidation with a finding of insolvency against Delta Casualty Company on December 4, 2001, following a determination by the Department of Insurance that the company was insolvent by more than \$1 million.

Delta Casualty began business in January 1967, and is licensed in Illinois, Florida, and Iowa. The company wrote primarily commercial automobile liability, physical damage, and workers compensation coverages for cab companies in the Chicago metropolitan area, as well as nonstandard private passenger automobile business in the State of Florida. The company discontinued all of its commercial cab business in December 2000 and its nonstandard Florida automobile business in March 2001. At December 31, 1999, and December 31, 2000, the

company reported direct written premiums of \$6.8 million and \$8.8 million, respectively.

Any remaining business currently active in a state in which the company was licensed will be canceled 31 days from the date of the entry of the order of liquidation, the policy's expiration date, or when canceled by the named insured, whichever occurs first.

The Illinois Insurance Guaranty Fund will be responsible for the covered claims of Delta Casualty's Illinois policyholders. The order of liquidation contains an injunction prohibiting suits against Delta Casualty outside of the liquidation proceedings.

Liquidation proceedings are being handled on behalf of the Director of Insurance by the Office of the Special Deputy Receiver, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654; (312) 836-9500. ♦

Company action

New Companies

Admiral Indemnity Company, DE, 12/31/01
 American Family Home Insurance Company, FL, 12/21/01
 American Horizon Insurance Company, IL, 12/21/01
 First Professionals Insurance Company, FL, 12/31/01
 First Standard Security Insurance Company, DE, 12/21/01
 GMAC Direct Insurance Company, MO, 12/21/01
 Insurance Corporation of America, MI, 12/31/01
 Integrity Mutual Insurance Company, WI, 12/31/01
 MGIC Indemnity Corporation, WI, 12/24/01
 NORCAL Mutual Insurance Company, CA, 12/31/01
 Progressive Max Insurance Company, OH, 12/21/01
 21st Century Casualty Company, CA, 12/31/01
 21st Century Insurance Company, CA, 12/31/01
 Underwriter for the Professions Insurance Company, CO, 12/21/01

Terminations

Delta Casualty Company, IL, declared insolvent and placed in liquidation 12/04/01
 Far West Insurance Company, NE, certificate of authority revoked 12/10/01

Suspensions

American Professional Insurance Company, IN, 1/01/02—6/30/03
 Highlands Insurance Company, TX, 1/01/02—6/30/03
 Northwestern National Casualty Company, WI, 1/01/02—6/30/03
 Statesman Insurance Company, IN, 1/01/02—6/30/03

Market Conduct Fines

The following entities were issued Stipulation and Consent Orders and fined for Insurance Code violations and/or improper claims practices cited in their Illinois market conduct examinations:

CUNA Mutual Insurance Society, WI, 12/31/01; \$25,000
 Employers Health Insurance Company, 1/07/02; \$25,000
 Paul Revere Life Insurance Company, 1/18/02; \$15,000
 Provident Life and Accident Insurance Company, 1/18/02; \$40,000 ♦

Producer regulatory action

(Copies of regulatory orders are available upon written request to the Producer Regulatory Unit, for \$1/page. The number of pages are indicated in parentheses following the effective date.)

Voluntary Revocation of Producer License

Linda M. Auberry
200 Keigher Drive
Manteno, IL 60950
Effective 12/01/01 (1)

James Morgan Insurance
& Real Estate
538 East 61st
Chicago, IL 60637
Effective 11/30/01 (1)

Samuel Kerney
1239 South Keeler, 2nd Fl.
Chicago, IL 60623
Effective 11/30/01 (1)

Carol V. Preszler
127131 West Bridge Road
Aberdeen, SD 57401
Effective 11/15/01 (1)

Lucy Rios
1603 Alexander Court
Waukegan, IL 60085
Effective 12/05/01 (1)

Jennifer L. Wolfe
15 Lake Santa Fe
Metamora, IL 61548
Effective 12/24/01 (1)

Revocation of Producer License

Thomas Francis Lazarz
23 West Wend Street
Lemont, IL 60439
Effective 11/15/01 (12)

Cynthia A. Schroeder
515 East Jefferson Street
Morton, IL 61550
Effective 12/31/01 (3)

Sharmila Wijeyakumar
9936 South Beverly Boulevard
Chicago, IL 60643
Effective 11/19/01 (2)

Suspension of Producer License

Hansel Cunningham
9338 South Prairie Avenue
Chicago, IL 60619
Effective 11/16/01 (2)

Ronald H. Engler
33 North County Street
Waukegan, IL 60085
Effective 11/08/01 (11)

Scott W. Hennings
5630 Victoria Drive
Oak Forest, IL 60452
Effective 11/26/01 (2)

Denial of Producer License

Carla S. Montgomery
8716 South Silver Lake Road
Medicallake, WA 99022
Effective 12/10/01 (9)

Erika L. Reinhardt
791 Thompson Boulevard
Buffalo Grove, IL 60089
Effective 11/26/01 (3)

Calvin A. Townsend
3052 Elliot Lane
Homewood, IL 60430
Effective 12/05/01 (9)

Suspension Lifted

Douglas J. Aller
165 North Taylor
Oak Park, IL 60302
Effective 09/12/01 to 12/31/01 (1)

Kelly B. Crowley
25800 West Highpoint
Ingleside, IL 60041
Effective 4/23/01 to 11/19/01 (1)

Stipulation and Consent Order—Civil Forfeiture Paid

Charlie C. Berry
9623 West Main
Belleville, IL 62223
Effective 10/15/01 (4)

Pat R. Berry
9623 West Main
Belleville, IL 62223
Effective 10/15/01 (4)

Cress License & Insurance Service
Inc.
5403 Forest
Washington Park, IL 62204
Effective 10/15/01 (4)

Tye H. Elliott
101 Kaitlin Court
East Peoria, IL 61611
Effective 10/01/01 (3)

First Community Insurance Group
265 Stebbings Court, #3
Bradley, IL 60915
Effective 12/04/01 (6)

Craig B. Lamm
2332 Iroquois Drive
Glenview, IL 60025
Effective 11/21/01 (11)

Magnum Insurance Agency Co., Inc.
(Premium Finance Company)
4259 North Western
Chicago, IL 60618
Effective 11/21/01 (3)

Magnum Insurance Agency Co.
4259 North Western
Chicago, IL 60618
Effective 11/21/01 (8)

R & R Insurance Agency
PO Box 2037
Country Club Hills, IL 60478
Effective 10/09/01 (6)

Ronald E. Reed
16937 Glen Oaks Drive
Country Club Hills, IL 60477
Effective 10/09/01 (6)

Douglas A. Wheeler
323 South Dearborn
Bradley, IL 60915
Effective 12/04/01 (6)♦

Hearings

Scheduled Hearings:

Ben T. Woodson
Prudential Property & Casualty
Insurance Company
Hearing No. 3884
Nonrenewal 1/30/02

Carlton Williams
Horace Mann Insurance Company
Hearing No. 3885
Nonrenewal 2/05/02

Settled Without Hearing:

Ameri-Clean
CNA Commercial Insurance Co.
Hearing No. 3880
Dismissed 12/21/01

Gianni, Inc.
Midwest Insurance Co.
Hearing No. 3874
Dismissed 1/02/02

Hassett Storage Warehouses, Inc.
RLI Insurance Co.
Hearing No. 3883
Dismissed 12/28/01

Ty-Walk Liquid Sales, Inc.
Zurich American Insurance Co.
Hearing No. 3876
Dismissed 1/04/02

Completed Hearings:

Charla Earls
Hearing No. 3858
Application for license denied
1/04/02

First Nonprofit Mutual Ins. Co.
Hearing No. 3868
Conditional approval of mutual
holding company conversion
12/14/01

Jonathan Fringer
State Farm Fire & Casualty Ins. Co.
Hearing No. 3856
Cancellation effective
11/29/01

James Todd Gray
Hearing No. 3856
Denial of request for license is
rescinded per conditions in Order
11/29/01

Thomas Francis Lazarz
Hearing No. 3824
Licensing authority revoked;
assessed civil penalty 11/15/01

Calvin A. Townsend
Hearing No. 3842
Request for license denied 12/05/01

Exam reports filed

Market Conduct

Cuna Mutual Insurance Company
12/31/01
Employers Health Insurance
1/07/02
Fortis Insurance Company
12/05/01

Financial

American Zurich Insurance Company
12/20/01
Dental Benefit Providers of IL, Inc.
11/15/01
CSA Fraternal Life
12/6/01
Financial American Life Insurance Co.
1/15/01
Florists' Insurance Company
12/21/01
Florists' Mutual Insurance Company
12/21/01
Frontier Mutual Insurance Company
11/20/01
Markdent, Inc.
1/11/02
Olympia Limited Health Services
Organization, Inc.
1/11/02
PACO Assurance Company, Inc.
12/20/01
Peoria Area Chamber of Commerce Trust
11/20/01
Sears Life Insurance Company
12/24/01
Stephenson County Mutual Fire
Insurance Company
12/21/01
Unitrin Direct Insurance Company
11/20/01
US Plate Glass Insurance Company
11/20/01
Zurich American Ins. Company of IL
12/20/01 ♦

Illinois Department of Insurance
320 West Washington Street
Springfield, Illinois 62767

Address Service Requested

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